

**RECEIVED**

JUN 28 2006

PUBLIC SERVICE  
COMMISSION

June 28, 2006

**HAND DELIVERED**

Ms. Beth O'Donnell  
Executive Director  
Public Service Commission of Kentucky  
211 Sower Boulevard  
P.O. Box 615  
Frankfort, Kentucky 40602-0615

Mark R. Overstreet  
(502) 209-1219  
(502) 223-4387 FAX  
moverstreet@stites.com

**RE: P.S.C. Case No. 2006-00128**

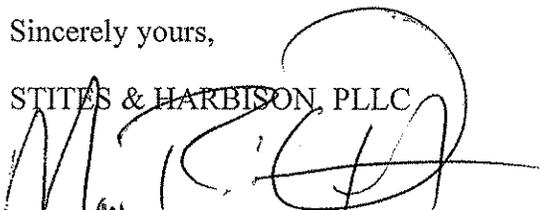
Dear Ms. O'Donnell:

Enclosed please find and accept for filing the original and six copies of Kentucky Power Company's Responses to the Staff's Second Set of Data Requests.

By copy of this letter a copy of the Responses is being served on counsel for the Attorney General and Kentucky Industrial Utility Customers, Inc.

Sincerely yours,

STITES & HARBISON, PLLC

  
Mark R. Overstreet

cc: Elizabeth E. Blackford  
Michael L. Kurtz

KE057:KE162:14328:1:FRANKFORT

**RECEIVED**

JUN 28 2006

PUBLIC SERVICE  
COMMISSION

**COMMONWEALTH OF KENTUCKY**

**BEFORE THE**

**PUBLIC SERVICE COMMISSION OF KENTUCKY**

**IN THE MATTER OF**

**AN EXAMINATION BY THE PUBLIC SERVICE )  
COMMISSION OF THE ENVIRONMENTAL )  
SURCHARGE MECHANISM OF KENTUCKY )  
POWER COMPANY FOR THE SIX-MONTH )  
BILLING PERIODS ENDING DECEMBER 31, 2002, )  
DECEMBER 31, 2003, JUNE 30, 2004, )  
DECEMBER 31, 2004, AND DECEMBER 31, 2005, )  
AND FOR THE TWO-YEAR BILLING PERIODS )  
ENDING JUNE 30, 2003 AND JUNE 30, 2005 )**

**CASE NO. 2006-00128**

**RESPONSES TO COMMISSION STAFF SECOND SET OF DATA REQUEST  
ON BEHALF OF KENTUCKY POWER COMPANY**

**June 28, 2006**



## Kentucky Power Company

### REQUEST

Refer to the Direct Testimony of Errol K. Wagner, page 10. Kentucky Power has determined that it has experienced a net under-recovery of its environmental surcharge in the amount of \$110,756. How many billing periods does Kentucky Power propose the \$110,756 should be spread over to recover the amount from ratepayers? Explain the response.

### RESPONSE

Kentucky Power proposes the entire \$110,756 to be included in the Company's first monthly environmental surcharge filing, on page E.S. 1.00 between lines 5 and 6 as an adjustment, following the Commission's order in this proceeding.

Using the April 2006 monthly revenues of \$30,928,117, the \$110,756 equates to approximately 0.3581% ( $\$110,756 / \$30,928,117$ ). A residential customer's monthly bill using 1,300 kWh would be affected by approximately \$0.35 ( $\$98.67 \times 0.3581\%$ ).

WITNESS: Errol K Wagner



## Kentucky Power Company

### REQUEST

Refer to the response to the Staff's First Data Request dated April 25, 2006, Item 16(c). Kentucky Power has determined that its weighted average cost of capital as of December 31, 2005 is 7.61 percent. Using the approach described in Case No. 2005-00068, Case No. 2005-00068, Application of Kentucky Power Company for Approval of an Amended Compliance Plan for Purposes of Recovering Additional Costs of Pollution Control Facilities and to Amend Its Environmental Cost Recovery Surcharge Tariff, final Order dated September 7, 2005. determine the weighted average cost of capital reflecting the application of the income tax gross-up factor. Include all calculations and assumptions used in the determination.

### RESPONSE

In filing this response, KPC is not waiving any objection it might have regarding the calculation of the gross-up factor based on Case No. 2005-00068, which is currently on appeal to the Franklin Circuit Court.

Attached is the calculation of the weighted average cost of capital reflecting the application of the income tax gross-up factor using the approach described in Case No. 2005-00068.

WITNESS: Errol K Wagner

KENTUCKY POWER COMPANY  
 WEIGHTED AVERAGE COST OF CAPITAL  
 AS OF DECEMBER 31, 2005

LINE NO.	Component	Balances	Cap. Structure	Cost Rates		WACC (Net of Tax)	GRCF		WACC (PRE-TAX)																																																																																								
		As of 12/31/2005																																																																																															
1	L/T DEBT	\$487,964,000	55.819%	5.835%		3.26%			3.26%																																																																																								
2	S/T DEBT	\$6,040,631	0.691%	4.490%		0.03%			0.03%																																																																																								
3	ACCTS REC FINANCING	\$32,348,353	3.700%	3.888%		0.14%			0.14%																																																																																								
4	C EQUITY	\$347,841,406	39.790%	10.500%	1/	4.18%	1.6073	2/	6.72%																																																																																								
5	TOTAL	\$874,194,390	100.000%			7.61%			10.15%																																																																																								
<p>WACC = Weighted Average Cost of Capital</p> <p>1/ Rate of Return on Common Equity per Case No. 2005 - 00341</p> <p>2/ Gross Revenue Conversion Factor (GRCF) Calculation: Appendix B Case No. 2005-00068 dated - September 07, 2005</p> <table border="1"> <tr> <td>1</td> <td>OPERATING REVENUE</td> <td>100.0000</td> </tr> <tr> <td>2</td> <td>UNCOLLECTIBLE ACCOUNTS EXPENSE (0.47%)</td> <td>0.4700</td> </tr> <tr> <td>3</td> <td>STATE TAXABLE PRODUCTION INCOME BEFORE 199 DEDUCTION</td> <td>99.5300</td> </tr> <tr> <td>4</td> <td>STATE INCOME TAX EXPENSE, NET OF 199 DEDUCTION (SEE BELOW)</td> <td>6.0450</td> </tr> <tr> <td>5</td> <td>FEDERAL TAXABLE PRODUCTION INCOME BEFORE 199 DEDUCTION</td> <td>93.4850</td> </tr> <tr> <td>6</td> <td>199 DEDUCTION PHASE-IN</td> <td>2.8050</td> </tr> <tr> <td>7</td> <td>FEDERAL TAXABLE PRODUCTION INCOME</td> <td>90.6800</td> </tr> <tr> <td>8</td> <td>FEDERAL INCOME TAX EXPENSE AFTER 199 DEDUCTION (35%)</td> <td>31.7380</td> </tr> <tr> <td>9</td> <td>AFTER-TAX PRODUCTION INCOME</td> <td>58.9420</td> </tr> <tr> <td>10</td> <td>GROSS-UP FACTOR FOR PRODUCTION INCOME:</td> <td></td> </tr> <tr> <td>11</td> <td>  AFTER-TAX PRODUCTION INCOME</td> <td>58.9420</td> </tr> <tr> <td>12</td> <td>  199 DEDUCTION PHASE-IN</td> <td>2.8050</td> </tr> <tr> <td>13</td> <td>  UNCOLLECTIBLE ACCOUNTS EXPENSE</td> <td>0.4700</td> </tr> <tr> <td>14</td> <td>TOTAL GROSS-UP FACTOR FOR PRODUCTION INCOME (ROUNDED)</td> <td>62.2170</td> </tr> <tr> <td>15</td> <td>BLENDED FEDERAL AND STATE TAX RATE:</td> <td></td> </tr> <tr> <td>16</td> <td>  FEDERAL (LINE 8)</td> <td>31.7380</td> </tr> <tr> <td>17</td> <td>  STATE (LINE 4)</td> <td>6.0450</td> </tr> <tr> <td>18</td> <td>BLENDED TAX RATE</td> <td>37.7830</td> </tr> <tr> <td>19</td> <td>GROSS REVENUE CONVERSION FACTOR (100.0000 / Line 14)</td> <td>1.6073</td> </tr> <tr> <td colspan="10"> <p>STATE INCOME TAX CALCULATION:</p> <table border="1"> <tr> <td>1</td> <td>PRE-TAX PRODUCTION INCOME</td> <td>100.0000</td> </tr> <tr> <td>2</td> <td>COLLECTIBLE ACCOUNTS EXPENSE (0.20%)</td> <td>0.4700</td> </tr> <tr> <td>3</td> <td>STATE TAXABLE PRODUCTION INCOME BEFORE 199 DEDUCTION</td> <td>99.5300</td> </tr> <tr> <td>4</td> <td>LESS: STATE 199 DEDUCTION</td> <td>2.8050</td> </tr> <tr> <td>5</td> <td>STATE TAXABLE PRODUCTION INCOME BEFORE 199 DEDUCTION</td> <td>96.7250</td> </tr> <tr> <td>6</td> <td>STATE INCOME TAX RATE</td> <td>6.2500</td> </tr> <tr> <td>7</td> <td>STATE INCOME TAX EXPENSE (LINE 5 X LINE 6)</td> <td>6.0450</td> </tr> </table> </td> </tr> </table>										1	OPERATING REVENUE	100.0000	2	UNCOLLECTIBLE ACCOUNTS EXPENSE (0.47%)	0.4700	3	STATE TAXABLE PRODUCTION INCOME BEFORE 199 DEDUCTION	99.5300	4	STATE INCOME TAX EXPENSE, NET OF 199 DEDUCTION (SEE BELOW)	6.0450	5	FEDERAL TAXABLE PRODUCTION INCOME BEFORE 199 DEDUCTION	93.4850	6	199 DEDUCTION PHASE-IN	2.8050	7	FEDERAL TAXABLE PRODUCTION INCOME	90.6800	8	FEDERAL INCOME TAX EXPENSE AFTER 199 DEDUCTION (35%)	31.7380	9	AFTER-TAX PRODUCTION INCOME	58.9420	10	GROSS-UP FACTOR FOR PRODUCTION INCOME:		11	AFTER-TAX PRODUCTION INCOME	58.9420	12	199 DEDUCTION PHASE-IN	2.8050	13	UNCOLLECTIBLE ACCOUNTS EXPENSE	0.4700	14	TOTAL GROSS-UP FACTOR FOR PRODUCTION INCOME (ROUNDED)	62.2170	15	BLENDED FEDERAL AND STATE TAX RATE:		16	FEDERAL (LINE 8)	31.7380	17	STATE (LINE 4)	6.0450	18	BLENDED TAX RATE	37.7830	19	GROSS REVENUE CONVERSION FACTOR (100.0000 / Line 14)	1.6073	<p>STATE INCOME TAX CALCULATION:</p> <table border="1"> <tr> <td>1</td> <td>PRE-TAX PRODUCTION INCOME</td> <td>100.0000</td> </tr> <tr> <td>2</td> <td>COLLECTIBLE ACCOUNTS EXPENSE (0.20%)</td> <td>0.4700</td> </tr> <tr> <td>3</td> <td>STATE TAXABLE PRODUCTION INCOME BEFORE 199 DEDUCTION</td> <td>99.5300</td> </tr> <tr> <td>4</td> <td>LESS: STATE 199 DEDUCTION</td> <td>2.8050</td> </tr> <tr> <td>5</td> <td>STATE TAXABLE PRODUCTION INCOME BEFORE 199 DEDUCTION</td> <td>96.7250</td> </tr> <tr> <td>6</td> <td>STATE INCOME TAX RATE</td> <td>6.2500</td> </tr> <tr> <td>7</td> <td>STATE INCOME TAX EXPENSE (LINE 5 X LINE 6)</td> <td>6.0450</td> </tr> </table>										1	PRE-TAX PRODUCTION INCOME	100.0000	2	COLLECTIBLE ACCOUNTS EXPENSE (0.20%)	0.4700	3	STATE TAXABLE PRODUCTION INCOME BEFORE 199 DEDUCTION	99.5300	4	LESS: STATE 199 DEDUCTION	2.8050	5	STATE TAXABLE PRODUCTION INCOME BEFORE 199 DEDUCTION	96.7250	6	STATE INCOME TAX RATE	6.2500	7	STATE INCOME TAX EXPENSE (LINE 5 X LINE 6)	6.0450
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